



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

**Legislative Actuarial Note
Health Benefits**

BILL NUMBER: House Bill 693 (Second Edition)

SHORT TITLE: Add Towns to State Health Plan.

SPONSOR(S): Representative Brody

SYSTEM OR PROGRAM AFFECTED: State Health Plan for Teachers and State Employees (Plan).

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

BILL SUMMARY: House Bill 693 (Second Edition) allows the following local governments to enroll their employees and dependents in the Plan:

- Town of Caswell Beach
- Town of Lilesville
- Town of Peachland

Participation in the Plan would be subject to the following conditions:

- The local governments must enter into a memorandum of understanding with the Plan at least 60 days prior to joining.
- The local governments and enrolling employees must meet the federal requirements to participate in a governmental plan.
- The local governments shall determine the eligibility of their employees and their dependents and what portion of premiums the employees will pay.
- The total premiums paid to the Plan will be the same as the fully contributory premiums for State employees.
- The Plan may charge 1.5% interest per month for late payment of premiums.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON STATE: The Segal Company, the actuary for the Plan, and Hartman & Associates, the actuary for the General Assembly, estimate the following annual net impact (additional claims and expenses minus additional revenue) to the Plan due to adding each of the local governments.

Local Government	Participant Count	Annual Net Impact		
		Hartman & Associates	The Segal Company	
			Total	Per Capita
Town of Caswell Beach	21	\$19,000 - \$75,000	\$79,000	\$3,762
Town of Lilesville	9	\$(2,000) - \$10,000	\$23,000	\$2,556
Town of Peachland	1	\$0 - \$4,000	\$4,000	\$4,000
Total	31	\$17,000 - \$89,000	\$106,000	\$3,419

Local governments with a higher estimated per capita net impact are generally those with less favorable demographics (e.g. older employees and dependents) and/or high current premiums after adjusting for the value of current coverage, implying a higher cost population.

The additional cost impact of the bill would be expected to impact total Plan premiums by less than one hundredth of a percent (0.01%). Because the bill does not provide coverage to retirees, it does not impact the State’s liability for Other Post-Employment Benefits (OPEB).

ASSUMPTIONS AND METHODOLOGY: The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Data Submitted by Local Governments

The local governments listed in the bill provided the following data to be used by the actuaries in estimating the impact on the Plan:

- Age and gender distribution of employees and dependents currently enrolled in health coverage
- Number of employees electing each of the following tiers under current health coverage: employee only, employee and child(ren), employee and spouse, employee and family
- Number of employees electing each plan offering, if multiple plans are currently offered
- Provisions of current coverage offering(s), including: services covered, deductibles, co-insurance, and co-pays
- Contributions/credits provided in Health Savings Accounts (HSAs) or Health Reimbursement Arrangements (HRAs)
- Premiums paid by the local government for each tier/plan option
- Premiums paid by employees for each tier/plan option
- Claims experience for the small number of local governments that are self-insured. Claims experience is generally not available for small employers that are fully insured.

Methodology

Both actuaries considered multiple factors in developing their estimates:

- The expected claims implied by the premiums the local government is paying for its current coverage, adjusted for the difference in actuarial value between the current offerings and the offerings under the Plan.
- The expected claims in the Plan for a population with the same age and gender distribution as the local government.

- Adverse selection factors of up to 50%, based on an expectation that higher cost local governments are more likely to request authorization to participate in the Plan and that higher cost employees and dependents are more likely to enroll.

Summary Information and Data about the Plan

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments and charter schools may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of many Medicare-eligible retirees who are in fully-insured Medicare Advantage plans. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who participate in a plan with a non-zero premium or who elect dependent coverage. Starting in 2014, benefit and premium changes are typically effective at January 1. The Plan's PPO benefit design includes three alternative benefit levels listed below:

- 1) The "Traditional" 70/30 plan that offers higher out-of-pocket requirements in return for lower employee and retiree premiums without needing to complete wellness activities,
- 2) The "Enhanced" 80/20 plan that offers lower out-of-pocket requirements with higher employee and retiree premiums, which can be lowered by completing wellness activities, and
- 3) The Consumer-Directed Health Plan (CDHP) that applies deductibles and co-insurance to all services and offers lower employee and retiree premiums if one completes wellness activities

Medicare-eligible retirees are offered three alternative plans:

- 1) The "Traditional" 70/30 plan as coverage secondary to Medicare for medical services plus a pharmacy benefit plan,
- 2) "Base" Medicare Advantage Prescription Drug Plans (MA-PDPs) from a choice of two carriers, Humana or United Healthcare, that are actuarially equivalent to the "Enhanced" 80/20 Plan and apply in-network out-of-pocket requirements at out-of-network providers
- 3) "Enhanced" MA-PDPs, identical to the "Base" MA-PDPs, except with lower co-pays and higher retiree premiums

The following tables provide a summary of the most common monthly premium rates for the Plan in 2015:

Active Employees and Non-Medicare Retirees

Wellness Plans

Employer	Employee/Retiree Share	
	Complete All	Complete No

	Share	Wellness Activities *	Wellness Activities
Enhanced 80/20 Plan	\$448.12	\$13.56	\$63.56
Consumer-Directed Health Plan	\$448.12	\$0.00	\$40.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$448.12	\$0.00

* Members receive credits for each activity. We have shown all or none for simplicity.

Medicare Retirees

Medicare Advantage Plans

	Employer Share	Employee/Retiree Share
MA-PDP Base Plan	\$348.24	\$0.00
MA-PDP Enhanced Plan	\$348.24	\$33.00

Alternate Plan

	Employer Share	Employee/Retiree Share
Traditional 70/30 Plan	\$348.24	\$0.00

Dependents (paid by employee/retiree in addition to premiums above)

	All Dependents are Non-Medicare			One or More Medicare Dependents		
	Enhanced 80/20	CDHP	Traditional 70/30	MA-PDP Base	MA-PDP Enhanced	Traditional 70/30
Employee/Retiree + Children	\$272.79	\$184.60	\$205.12	\$114.50	\$147.50	\$145.94
Employee/Retiree + Spouse	\$628.54	\$475.68	\$528.52	\$114.50	\$147.50	\$383.72
Employee/Retiree + Family	\$666.38	\$506.64	\$562.94	\$229.00	\$295.00	\$418.10

The employer share of premiums for retirees is paid from the Retiree Health Benefit Fund. During FY 2014-15, employers contribute 5.49% of active employee payroll into the Fund. Total contributions for the year are projected to be approximately \$848 million.

Financial Condition

Projected Results for CY 2015 and CY 2016 – The following summarizes projected financial results for 2015 and 2016, based on financial experience through December, 2014 and enrollments for January, 2015. The projection assumes a 7.0% annual claims growth trend for medical claims, an 8.5% trend for pharmacy claims, benefit provisions and member-paid premiums as currently adopted by the Board, and assumed premium increases in 2016 based on the Board’s recommendation.

	(\$ millions)	
	Projected CY 2015	Projected CY 2016

Beginning Cash Balance	\$1,014.8	\$863.2
Receipts:		
Net Premium Collections	\$2,946.7	\$3,063.9
Medicare Part D / EGWP Subsidies	\$63.2	\$14.3
Investment Earnings	\$3.9	\$3.0
Total	\$3,013.8	\$3,081.2
Disbursements:		
Net Medical Claim Payment Expenses	\$2,099.3	\$2,175.5
Net Pharmacy Claim Payment Expenses	\$657.8	\$713.9
Medicare Advantage Premiums	\$174.2	\$193.4
Administration and Claims-Processing Expenses	\$234.1	\$237.8
Total	\$3,165.5	\$3,320.6
Net Operating Income (Loss)	(\$151.7)	(\$239.4)

Of the premiums paid in CY 2015, an estimated \$2.0 billion is derived from General Fund sources and an estimated \$0.1 billion is derived from Highway Fund sources.

Other Information

Additional assumptions include Medicare benefit “carve-outs,” cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, fraud detection, and other authorized actions by the State Treasurer, Executive Administrator, and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Medical claim costs are expected to increase at a rate of 7.0% annually and pharmacy claim costs are expected to increase at a rate of 8.5% annually according to assumptions adopted by the Board of Trustees. The active population is projected to decline by 1% per year and the retired population is projected to increase by 1% per year.

Enrollment as of January 1, 2015

I. No. of Participants	Traditional 70/30	Enhanced 80/20	Consumer Directed	Medicare Advantage	Total	Percent of Total
<u>Actives</u>						
Employees	134,404	168,041	9,279	-	311,724	45.5%
Dependents	78,230	74,173	9,326	-	161,729	23.6%
Sub-total	212,634	242,214	18,605	-	473,453	69.1%
<u>Retired</u>						
Employees	58,623	31,116	847	98,813	189,399	27.6%
Dependents	6,513	4,032	353	7,787	18,685	2.7%
Sub-total	65,136	35,148	1,200	106,600	208,084	30.4%
<u>Other</u>						
Employees	904	1,512	59	-	2,475	0.4%
Dependents	627	582	69	-	1,278	0.2%
Sub-total	1,531	2,094	128	-	3,753	0.5%
<u>Total</u>						
Employees	193,931	200,669	10,185	98,813	503,598	73.5%
Dependents	85,370	78,787	9,748	7,787	181,692	26.5%
Grand Total	279,301	279,456	19,933	106,600	685,290	100%
Percent of Total	40.8%	40.8%	2.9%	15.6%	100.0%	
II. Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	149,351	159,389	5,537	91,026	405,303	
Employee Child(ren)	26,212	26,050	2,287	187	54,736	
Employee Spouse	6,385	5,616	638	7,600	20,239	
Employee Family	10,656	8,812	1,622			
Other (e.g. Split Contract)	1,327	802	101		2,230	
Total	193,931	200,669	10,185	98,813	482,508	
Percent Enrollment by Contract						
	Traditional	Enhanced	CDHP	MA	Total	
Employee Only	77.0%	79.4%	54.4%	92.1%	84.0%	
Employee Child(ren)	13.5%	13.0%	22.5%	0.2%	11.3%	
Employee Spouse	3.3%	2.8%	6.3%	7.7%	4.2%	
Employee Family	5.5%	4.4%	15.9%	0.0%	0.0%	
Other (e.g. Split Contract)	0.7%	0.4%	1.0%	0.0%	0.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
III. Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	164,204	182,573	11,095	70,102	427,974	
Male	115,097	96,883	8,838	36,498	257,316	
Total	279,301	279,456	19,933	106,600	685,290	
Percent Enrollment by Sex						
	Traditional	Enhanced	CDHP	MA	Total	
Female	58.8%	65.3%	55.7%	65.8%	62.5%	
Male	41.2%	34.7%	44.3%	34.2%	37.5%	
Total	100.0%	100.0%	100.0%	100.0%	100.0%	

IV. Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	72,665	66,607	7,567	10	146,849
25 to 44	73,396	74,376	5,727	290	153,789
45 to 54	46,998	55,289	3,438	1,128	106,853
55 to 64	47,633	76,519	3,029	1,579	128,760
65 & Over	38,609	6,665	172	103,593	149,039
Total	279,301	279,456	19,933	106,600	685,290

Percent Enrollment by Age	Traditional	Enhanced	CDHP	MA	Total
24 & Under	26.0%	23.8%	38.0%	0.0%	21.4%
25 to 44	26.3%	26.6%	28.7%	0.3%	22.4%
45 to 54	16.8%	19.8%	17.2%	1.1%	15.6%
55 to 64	17.1%	27.4%	15.2%	1.5%	18.8%
65 & Over	13.8%	2.4%	0.9%	97.2%	21.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V. Retiree Enrollment by Category	Employee	Dependents	Total
Non-Medicare Eligible	53,743	9,610	63,353
Medicare Eligible in Traditional 70/30	37,538	1,487	39,025
Medicare Eligible in Base Medicare Advantage Plans	60,833	2,831	63,664
Medicare Eligible in Enhanced Medicare Advantage Plans	37,980	4,956	42,936
Total	190,094	18,884	208,978

Percent Enrollment by Category (Retiree)	Employee	Dependents	Total
Non-Medicare Eligible	28.3%	50.9%	30.3%
Medicare Eligible in Traditional 70/30	19.7%	7.9%	18.7%
Medicare Eligible in Base Medicare Advantage Plans	32.0%	15.0%	30.5%
Medicare Eligible in Enhanced Medicare Advantage Plans	20.0%	26.2%	20.5%
Total	100.0%	100.0%	100.0%

VI. Enrollment By Major Employer Groups	Employees	Dependents	Total
State Agencies	69,629	33,021	102,650
UNC System	51,279	32,033	83,312
Local Public Schools	171,429	86,048	257,477
Charter Schools	3,402	2,044	5,446
Local Community Colleges	15,741	8,517	24,258
Other			
Local Governments	2,118	980	3,098
COBRA/Reduction in Force/Direct Bill	599	362	961
Nat. Guard, Fire & Rescue	2	2	4
Sub-total	314,199	163,007	477,206
Retirement System	189,399	18,685	208,084
Total	503,598	181,692	685,290

Percent Enrollment by Major Employer Groups	Employees	Dependents	Total
State Agencies	13.8%	18.2%	15.0%
UNC System	10.2%	17.6%	12.2%
Local Public Schools	34.0%	47.4%	37.6%
Charter Schools	0.7%	1.1%	0.8%
Local Community Colleges	3.1%	4.7%	3.5%
Other			
Local Governments	0.4%	0.5%	0.5%
COBRA/Reduction in Force	0.1%	0.2%	0.1%
Nat. Guard, Fire & Rescue	0.0%	0.0%	0.0%
Sub-total	62.4%	89.7%	69.6%
Retirement System	37.6%	10.3%	30.4%
Total	100.0%	100.0%	100.0%

SOURCES OF DATA:

The Segal Company; preliminary financial projections updated through Q4 CY2014 under revised benefit proposal; dated February 6, 2015; as presented to the Board of Trustees on February 11, 2015. Filename “CY2014 Preliminary Q4 Update – Revised Proposal.pdf”

-Actuarial Note, Hartman & Associates, “Adding Specific Local Governments to the State Health Plan – Towns of Caswell Beach, Lilesville, and Peachland”, April 21, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

-Actuarial Note, The Segal Company, “House Bill XXX Add Towns of Lilesville, Caswell Beach and Peachland to State Health Plan”, April 21, 2015, original of which is on file with the State Health Plan for Teachers and State Employees and the General Assembly’s Fiscal Research Division.

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